



CITY OF LODI COUNCIL COMMUNICATION

AGENDA TITLE: Adopt resolution authorizing the City Manager and Electric Utility Director to procure energy requirements through fiscal year 2007 at an amount not to exceed \$39.8 million (EUD)

MEETING DATE: January 18, 2006

PREPARED BY Interim Electric Utility Director

RECOMMENDED ACTION: That the City Council authorize the City Manager and Electric Utility Director to procure energy required to meet load serving obligations of Lodi Electric through Fiscal Year 2007 in accordance with the City of Lodi Energy Risk Management Policies at an amount not to exceed \$39.8 million.

BACKGROUND INFORMATION: Issue: Lodi must procure wholesale energy in order to meet its load serving obligations to its customers for fiscal year 2007 and beyond. The amount of wholesale energy that must be procured ranges from 42% to 94% of Lodi's total load serving obligation. A load and resource balance (attachment 1) provides detail showing the sources of owned energy supply available to Lodi, the load serving obligation amounts and the remaining energy balances that must be procured from the market in order to meet the load serving obligation. The cost of procuring the wholesale energy (attachment 2) to meet Lodi's load serving obligation (the net short) shows the amount of energy required by month, the prices for that energy prevailing on January 5, 2006 and the resulting cost of procurement if all energy was to be procured at the January 5, 2006 prevailing price. As long as Lodi has a net open position, Lodi will be exposed to price risk associated with market volatility where prices are regularly rising and falling in the wholesale energy markets. To reduce Lodi's exposure to this price risk, the net open position must be reduced.

City Council was presented with an Energy Risk Management Policy (ERMP) as part of the agenda under which this purchase authorization is being requested. While the ERMP establishes the rules under which energy will be procured, it does not specify strategies for how that energy should be procured. As a result, staff again consulted with the agencies surveyed as part of the ERMP development to determine whether those agencies had developed any written policies or strategies for procurement. Both Palo Alto and Roseville have established written policies outside of their Risk Management Policies that prescribe target levels for the net open position over various time horizons. A comparison of those target levels is as follows:

APPROVED:

A handwritten signature in black ink, appearing to read "Blair King".

Blair King, City Manager

Roseville attempts to maintain a minimum portfolio of fixed price energy supply such that at any given time:

- 90% of expected energy requirements are covered 0 to 12 months out;
- 80% of expected energy requirements are covered 13 to 24 months out;
- 70% of expected energy requirements are covered 25 to 60 months out; and
- 30% of expected energy requirements are covered 61 to 120 months out

Palo Alto, similarly, has established two procurement strategies and has memorialized those strategies in documents entitled "Short-Term Electric Laddering Strategy" or STEAM and the "Long Term Electric Acquisition Plan Guidelines" or LEAP. The documents provide for the following general procurement practices:

- 80% to 120% of forecasted load requirements are covered 0 to 12 months out;
- 70% to 110% of forecasted load requirements are covered 13 to 24 months out; and
- 60% to 100% of forecasted load requirements are covered 25 to 36 months out

Palo Alto differs slightly from Roseville in that a substantial portion of their portfolio is hydro based, which can vary +/- 20% in any one year, and as a result, they provide for a target range as opposed to a target amount and take into consideration expected hydro production levels in making their procurement decisions within the approved ranges.

If Lodi were to immediately adopt policies similar to Roseville and Palo Alto, Lodi would need to procure virtually all of its net open position for the balance of 2006 and a large percentage of its net open position for 2007. Unlike, Roseville and Palo Alto which have been procuring under these policies for the last couple years when prices were significantly lower than currently prevailing prices, Lodi is in the position of having to procure large amounts of its energy portfolio at relatively high prices when compared to historical market prices.

As Lodi considers options for implementing a laddering strategy, and moving from a short-term implementation of that laddering strategy, to a longer-term implementation of that laddering strategy, advice from NCPA's economist may be instructive (attachment 3). Summarizing, NCPA indicates that prices for the 3rd quarter of 2006 have dropped significantly in the past week to close at \$95.50 per mwhr, may decline further in the next two weeks as a result of unseasonably warm weather across the US, but with a return to more typical winter temperatures could result in market price increases of 10% to 25%. As a result, NGPA is recommending that agencies should consider purchasing 20% to 50% of their remaining 2006 open position and more if a more favorable buying opportunity presents itself. Unfortunately, because of the large open position, and relatively small amount of savings available to absorb cost increases, Lodi must continue to look to close significantly larger portions of its net open position in order to protect its savings accounts and maintain rate stability to the degree possible.

To put the issue of market volatility into perspective, staff prepared an estimate (for budget purposes) of market purchase costs for fiscal year 2007 on November 28, 2005 utilizing market prices prevailing at that time (HLH = \$87.50/mwhr and LLH = \$65.00/mwhr) which translated into total estimated market procurement costs of \$25 million. While prices have come down as indicated above for the 3rd quarter of 2006, prices for the balance of fiscal year 2007 have increased since November 28, 2005 (HLH = \$92.20/mwhr and LLH = \$73.30/mwhr) which translates into a total market procurement cost of \$26.5 million - an increase of \$1.5 million or 6% of the market purchase budget or 3.3% of the total power supply budget.

Recommendation:

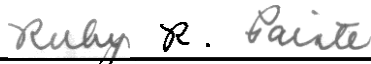
To begin reducing Lodi's exposure to this market volatility, staff is recommending procurement through NCPA of 80% to 90% of Lodi's net open position for the 3rd quarter of 2006 and 65% to 75% of Lodi's net open position for the 4th quarter of 2006. This will help to address the immediate issue associated with short-term volatility. The balance of fiscal year 2007, or 1st and 2nd quarters of 2007, will need to be procured through contracts executed directly by Lodi, and which, will have to be brought back to Council at a later date. Similarly, additional longer term resource procurement decisions which begin reducing open positions two and three years out, will establish further price certainty, and either allow Lodi to take advantage of decreasing prices in the future on the balance of Lodi's net open position or reduce Lodi's exposure to rising prices on the balance of the net open position.

To implement the initial ~~laddering~~ of purchases recommended above, staff recommends:

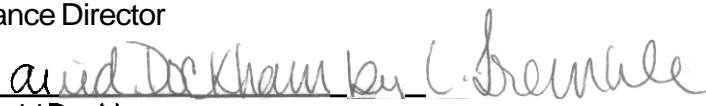
- The City Manager and Electric Utility Director be authorized to procure energy for fiscal year 2007 in the amounts of the net open position and at costs of up to 150% of costs of procurement of the net open position as estimated and shown on attachment 2.
- That NCPA be authorized to implement automatic purchases of the net open position for Q3 and Q4, in amounts specified by the City Manager or Electric Utility Director, should prices reach agreed upon thresholds and a net open position for the quarter remain.
- That the City Manager and the Electric Utility Director be authorized to direct NCPA to replace any amount of energy at currently prevailing prices in the event of a failure or disablement of any one of Lodi's owned resources.
- City staff report to council, in accordance with Energy Risk Management Policies, on the status and ~~cost~~ of purchases for fiscal year 2007.
- City staff, through the Risk Oversight Committee established as part of the Energy Risk Management Policies, continue to develop and ~~refine~~ a long term ~~laddering~~ strategy for energy procurement over the next 36 months.
- City Council rescind the procurement authorization granted to the City Manager and Electric Utility Director under Resolution No. 2001-246 and replace that authorization with the authority granted under the attached resolution.

FISCAL IMPACT: The total ~~cost~~ of procurement under the authorization requested is estimated at \$26.5 million based on market prices prevailing on January 5, 2006.

FUNDING: Costs associated with procurement under the authorization requested will be incurred when the energy is delivered, in fiscal year 2007. Council has not adopted a budget for fiscal year 2007 and as a result, funding has not yet been established. Ultimately, funding for this authorization will be supported by retail electricity sales, once the fiscal year 2007 budget is approved.



Ruby Paiste, Interim Finance Director



David Dockham
Interim Electric Utility Director

DD/ast

Attachments (4)

cc: City Attorney

Attachment 1 - FY 2007 Load and Resource Balance

Heavy Load Hours (HLH) - (On-Peak)

Resource (MWh)	July 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	March 07	April 07	May 07	June 07
Geothermal	5442.4	5636.7	5325.3	5636.7	5040.0	5383.8	5617.9	5122.6	4564.6	5517.6	5500.9	5325.3
Calaveras	5451.7	5451.7	5297.3	1862.3	1242.5	1356.8	2486.5	3235.7	4831.6	5743.1	7937.3	4216.5
CT #1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
STIG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Seattle CL Ex.	7437.6	4710.5	7260.5	3630.2	-5500.0	-8287.6	-7916.7	-7600.1	-8550.1	-1937.5	0.0	7260.5
Western	1738.7	1577.4	1055.5	639.6	408.1	526.1	511.7	593.0	629.5	875.8	1391.2	1381.2
HLH Combined Purc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (On-Peak, MWh)	20070.4	17376.3	18938.6	11768.8	1190.6	-1020.9	699.3	1351.2	1475.6	10199.0	14829.3	18183.5
Total Load (On-Peak)	31144.9	34620.4	28358.6	24852.2	23833.4	23641.2	24748.7	22635.5	24603.2	24098.7	26441.6	29704.7
MWh, Surplus/(Deficit)	-11074.5	-17244.1	-9420.0	-13083.4	-22642.9	-24662.2	-24049.4	-21284.3	-23127.6	-13899.7	-11612.3	-11521.2
% of Load	-36%	-50%	-33%	-53%	-95%	-104%	-97%	-94%	-94%	-58%	-44%	-39%
Avg. MW (based on 400 hrs)	-27.7	-43.1	-23.6	-32.7	-56.6	-61.7	-60.1	-53.2	-57.8	-34.7	-29.0	-28.8

FY 2006-2007 Energy Balance

Light Load Hours (LLH) - (Off-Peak)

Resource (MWh)	July 06	Aug 06	Sep 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	March 07	April 07	May 07	June 07
Geothermal	4276.1	4081.8	4184.2	4081.8	4469.5	4230.2	4414.1	3864.4	3586.4	3678.4	4322.1	4184.2
Calaveras	887.5	887.5	1009.0	525.3	371.1	339.2	806.7	1045.4	1754.6	2489.7	2765.3	1546.4
CT #1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
STIG	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Seattle CL Ex.	1312.5	831.3	1281.3	640.6	-1833.3	-1462.5	-750.0	-750.0	-600.0	-123.3	0.0	1281.3
Western	431.6	394.4	263.9	159.9	102.0	175.4	287.8	363.5	385.8	536.8	794.8	782.4
LLH Combined Purc	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total (Off-Peak, MWh)	6907.8	6194.9	6738.3	5407.6	3109.3	3282.2	4758.6	4523.2	5126.8	6581.6	7882.2	7794.3
Total Load (Off-Peak)	18854.9	16969.3	16174.9	13871.6	13759.2	15032.1	13872.7	12247.2	13060.3	13930.4	14293.5	15183.2
MWh, Surplus/(Deficit)	-11947.1	-10774.4	-9436.5	-8464.0	-10649.9	-11749.9	-9114.1	-7724.0	-7933.5	-7348.9	-6411.2	-7389.0
% of Load	-63%	-63%	-58%	-61%	-77%	-78%	-66%	-63%	-61%	-53%	-45%	-49%
Avg. MW (based on 320 hrs)	-37.3	-33.7	-29.5	-26.5	-33.3	-36.7	-28.5	-24.1	-24.8	-23.0	-20.0	-23.1

Attachment 2 - Cost of Procuring Wholesale Energy at January 5, 2006 Prevailing Prices

Jan. 5, 2006

		Lodi Total			Lodi HLH			Lodi LLH			HLH		LLH	
		Surplus/(Deficit)	Load	% of Load	Surplus/(Deficit)	Load	% of Load	Surplus/(Deficit)	Load	% of Load	\$/MWH	\$/MWH		
2006	July	(23,022)	50,000	-46.0%	(11,075)	31,145	-35.6%	(11,947)	18,855	-63.4%	\$ 95.50	\$ 72.50	\$ 95.50	\$ 72.50
	August	(28,019)	51,590	-54.3%	(17,244)	34,620	-49.8%	(10,774)	16,969	-63.5%	\$ 95.50	\$ 72.50		
	September	(18,857)	44,534	-42.3%	(9,420)	28,359	-33.2%	(9,437)	16,175	-58.3%	\$ 95.50	\$ 72.50		
	October	(21,547)	38,724	-55.6%	(13,083)	24,852	-52.6%	(8,464)	13,872	-61.0%	\$ 91.75	\$ 75.50	\$ 91.75	\$ 75.50
	November	(33,293)	37,593	-88.6%	(22,643)	23,833	-95.0%	(10,650)	13,759	-77.4%	\$ 91.75	\$ 75.50		
	December	(36,412)	38,673	-94.2%	(24,662)	23,641	-104.3%	(11,750)	15,032	-78.2%	\$ 91.75	\$ 75.50		
2007	January	(33,164)	38,621	-85.9%	(20,099)	24,749	-81.2%	(13,064)	13,873	-94.2%	\$ 94.75	\$ 78.50	\$ 94.75	\$ 78.50
	February	(29,008)	34,883	-83.2%	(17,334)	22,636	-76.6%	(11,674)	12,247	-95.3%	\$ 94.75	\$ 78.50		
	March	(31,061)	37,664	-82.5%	(21,350)	24,603	-86.8%	(9,711)	13,060	-74.4%	\$ 94.75	\$ 78.50		
	April	(21,249)	38,029	-55.9%	(11,925)	24,099	-49.5%	(9,324)	13,930	-66.9%	\$ 87.75	\$ 65.81	\$ 85.17	\$ 63.88
	May	(18,024)	40,735	-44.2%	(11,612)	26,442	-43.9%	(6,411)	14,293	-44.9%	\$ 87.75	\$ 65.81		
	June	(18,910)	44,888	-42.1%	(11,521)	29,705	-38.8%	(7,389)	15,183	-48.7%	\$ 80.00	\$ 60.00		
	FY Total	(312,564)	495,933	-63.0%	(191,969)	318,683	-60.2%	(120,595)	177,249	-68.0%				

Assumptions: Zero STIG and CT1 generation.

Average hydro conditions for Calaveras Project, Western Base Resource, and market prices.

Forward electricity prices based on Jan. 5, 2006 TFS Energy indications.

There are no forward energy transactions for Lodi during this period.

INDICATED COST OF DEFICIT ENERGY BALANCES				
	<u>Total Cost</u>	<u>HLH Cost</u>	<u>LLH Cost</u>	
2006	July \$	(1,923,781)	\$ (1,057,615)	\$ (866,166)
	August \$	(2,427,955)	\$ (1,646,808)	\$ (781,147)
	September \$	(1,583,761)	\$ (899,611)	\$ (684,150)
	October \$	(1,839,434)	\$ (1,200,399)	\$ (639,035)
	November \$	(2,881,551)	\$ (2,077,482)	\$ (804,069)
	December \$	(3,149,864)	\$ (2,262,739)	\$ (887,125)
2007	January \$	(2,929,955)	\$ (1,904,420)	\$ (1,025,534)
	February \$	(2,558,835)	\$ (1,642,429)	\$ (916,406)
	March \$	(2,785,232)	\$ (2,022,919)	\$ (762,313)
	April \$	(1,660,023)	\$ (1,046,394)	\$ (613,629)
	May \$	(1,440,919)	\$ (1,018,981)	\$ (421,938)
	June \$	(1,365,033)	\$ (921,695)	\$ (443,338)
Total July-June		\$ (26,546,343)	\$ (17,701,494)	\$ (8,844,849)

SPOT net PURC. COST (est)

\$/MWH (avg.) \$ 84.9 /mwh \$ 92.2 /mwh \$ 73.3 /mwh

Attachment 3 – Reprint of NCPA Analysis on Market Purchase Opportunity

From: Mike Mace

Sent: Friday, January 06, 2006 3:51 PM

Subject: Possible Near-Term Buying Opportunity for both Natural Gas and Electricity

Possible Near-Term Buying Opportunity for both Natural Gas and Electricity

Natural gas prices continued their rapid decline yesterday in response to an unprecedented gas storage build of 1 Bcf according to the EIA. Expectations were for a withdrawal in the 50-60 Bcf range compared to a five year average withdrawal of 143 Bcf. Storage builds at this point in the winter are extremely rare and this week's number reflects the extraordinary warmer-than-normal conditions of recent weeks. While some industry analysts suggest that this week's storage number is erroneous, the EIA has announced that it does not plan to revise the number.

The decline in gas prices combined with recent regional precipitation has caused substantial reductions in forward electric prices for NP15 as well. More importantly, the near term forecast shows warmer than normal conditions persisting across the eastern half of the U.S. for the next 14 days. This should lead to further fundamental downward pressure on both natural gas prices and electricity prices for NP15. However, Risk Management Inc.'s (RMI) technical analysis suggests that the natural gas market is oversold and could possibly experience a sharp short covering rally in the next week. RMI expects the duration of such a rally to be brief.

NP15 peak period prices for Q3'06 dropped \$5/MWh yesterday to close at \$95.50/MWh. While this is a very high price, it is substantially lower than prices just two months ago. Forward natural gas prices for PG&E City gate for Q3'06 are now just under \$9/Mwh. Please see slide #1 in the attachment for a listing of yesterday's forward gas and electric prices for NP15.

With these fundamentals in place, it is possible that a favorable buying opportunity may arise in the next few weeks. Given that most expectations are for natural gas to average \$10/MMBtu for the remainder of 2006, any substantial retreat below \$9/MMBtu would present a relatively attractive buying opportunity for either gas or electricity for the remainder of 2006. A number of industry analysts feel that the "fair market" value for natural gas in 2006 is in the \$8-\$10/MMBtu range. Given the fundamental supply difficulties in the natural gas market, there is a high probability of continued price increases/volatility later in 2006.

Therefore given a sufficient drop in gas/electric prices, members may want to lock in forward prices at a "reasonable" range that provides protection against a repeat of the extreme/volatile prices experienced in Q3 & Q4 of last year. Please keep in mind that a favorable buying opportunity could be very brief as there is every expectation of a return to normal winter weather which could cause prices to rise by 10-25% from current levels.

Member utilities may want to consider purchasing 20-50% of their remaining 2006/Q1'07 power/gas requirements if the price opportunity presents itself. Obviously, a more significant price retreat would suggest purchasing a larger percentage. Beyond January, the next favorable buying opportunity could take place later this spring.

If you have any questions or comments, please feel free to contact me.

Michael W. Mace
Economist
Northern California Power Agency

NP15 Forward Wholesale Electric Prices

(as of 1/5/06)

NP15 1/5/2006		Electric Prices ----->				Gas Prices ----->			Generation Costs	
		HLH	LLH *	Baseload	SuperPk**	1/5/2006 NYMEX	1/5/2006 Basis	PG&E CG	STIG	CT
FEB	Bid	\$75.50	\$57.50	\$67.76						
	Offer	\$77.00	\$59.50	\$69.48	\$77.17	\$9.50	(\$1.10)	\$8.40	\$80.00	\$136.38
MAR	Bid	\$74.50	\$55.25	\$66.22						
	Offer	\$76.50	\$58.25	\$68.65	\$76.81	\$9.60	(\$1.08)	\$8.52	\$81.08	\$138.18
Q2 06	Bid	\$72.25	\$45.75	\$60.86						
	Offer	\$74.25	\$48.75	\$63.29	\$76.11	\$9.30	(\$0.83)	\$8.47	\$80.63	\$137.43
Q3 06	Bid	\$93.50	\$70.50	\$83.61						
	Offer	\$95.50	\$72.50	\$85.61	\$110.78	\$9.43	(\$0.45)	\$8.98	\$85.22	\$145.08
Q4 06	Bid	\$89.75	\$73.00	\$82.55						
	Offer	\$91.75	\$75.50	\$84.76	\$94.32	\$10.13	(\$0.73)	\$9.40	\$89.00	\$151.38
Q1 07	Bid	\$92.75	\$76.50	\$85.76						
	Offer	\$94.75	\$78.50	\$87.76	\$95.13	\$11.13	(\$0.75)	\$10.38	\$97.82	\$166.08
YR 07	Bid	\$85.75	\$65.50	\$77.04						
	Offer	\$87.75	\$66.75	\$78.72	\$113.80	\$9.73	(\$0.52)	\$9.21	\$87.29	\$148.53
YR 08	Bid	\$80.00	\$59.75	\$71.29						
	Offer	\$82.00	\$61.75	\$73.29	\$106.34	\$9.19	(\$0.42)	\$8.77	\$83.33	\$141.93
YR 09	Bid	\$75.75	\$53.75	\$66.29						
	Offer	\$77.75	\$56.75	\$68.72	\$100.83	\$8.67	(\$0.39)	\$8.28	\$78.92	\$134.58
YR 10	Bid	\$73.00	\$50.75	\$63.43						
	Offer	\$74.00	\$52.75	\$64.86	\$95.97	\$8.24	(\$0.36)	\$7.88	\$75.32	\$128.58

****Defined as HE13-HE20, annual values represent Q3**

EIA Withdrawal Statistics – U.S. Lower 48

Injections (Withdrawals)

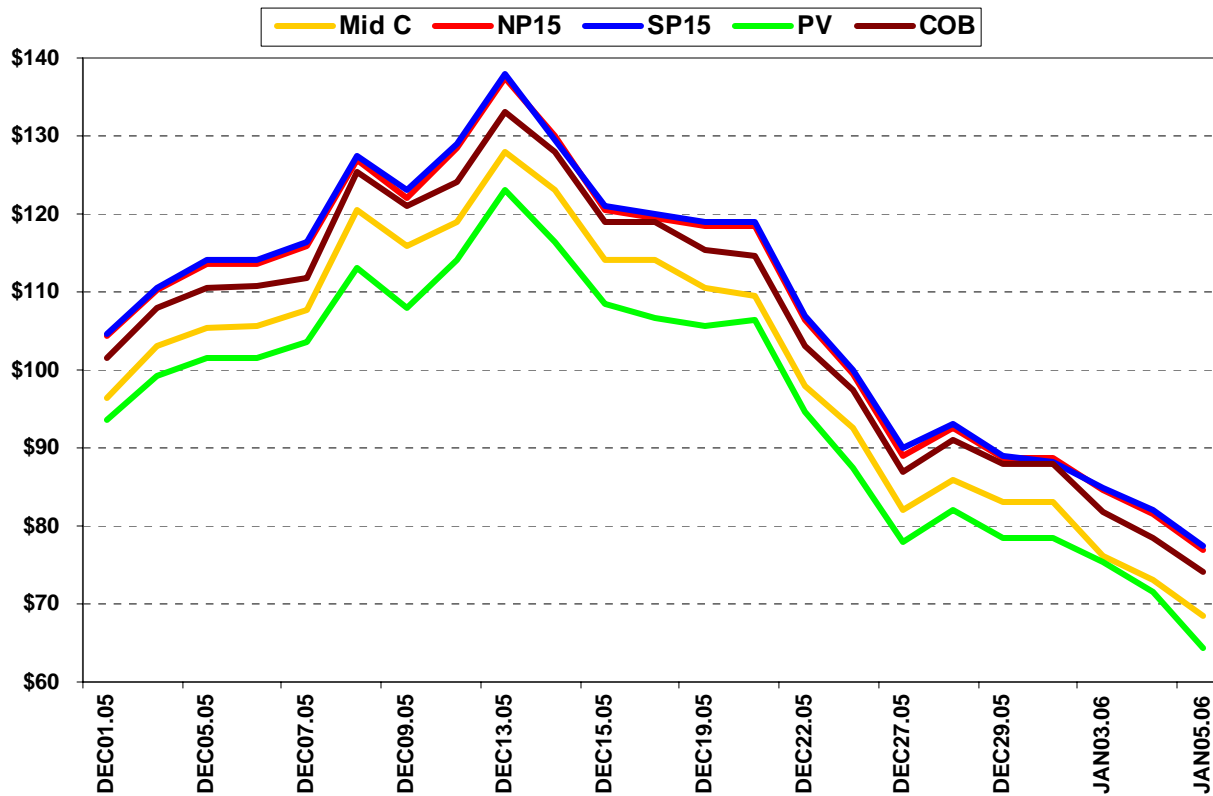
	00/01	01/02	02/03	03/04	04/05	5 Yr. Avg.	05/06
3-Nov	35	20	(27)	34	44	21	61
10-Nov	(4)	35	(48)	32	34	10	53
17-Nov	(90)	33	(1)	(32)	(6)	(19)	(8)
24-Nov	(148)	30	(49)	(1)	(17)	(37)	(49)
1-Dec	(73)	4	(91)	(59)	(5)	(45)	(59)
8-Dec	(147)	(17)	(162)	(111)	(88)	(105)	(202)
15-Dec	(147)	(42)	(159)	(134)	(61)	(109)	(162)
22-Dec	(167)	(80)	(95)	(151)	(123)	(123)	(162)
29-Dec	(208)	(126)	(123)	(80)	(178)	(143)	1
5-Jan	(154)	(199)	(86)	(52)	(151)	(128)	
12-Jan	(86)	(128)	(136)	(153)	(88)	(118)	
19-Jan	(73)	(118)	(219)	(156)	(110)	(135)	
26-Jan	(119)	(106)	(247)	(195)	(230)	(179)	
2-Feb	(95)	(75)	(208)	(236)	(188)	(160)	
9-Feb	(87)	(174)	(150)	(224)	(176)	(162)	
16-Feb	(76)	(126)	(203)	(172)	(98)	(135)	
23-Feb	(109)	(74)	(154)	(164)	(88)	(118)	
2-Mar	(72)	(145)	(176)	(96)	(107)	(119)	
9-Mar	(76)	(117)	(117)	(28)	(139)	(95)	
16-Mar	(18)	(92)	(85)	(46)	(95)	(67)	
23-Mar	(3)	(75)	7	(65)	(89)	(45)	
30-Mar	(58)	(61)	37	(18)	(59)	(32)	

Storage Level (BCF)

	00/01	01/02	02/03	03/04	04/05	5 Yr. Avg.	05/06
	2748	3,152	3,145	3,155	3,293	3,099	3,229
	2,744	3,187	3,097	3,187	3,327	3,108	3,282
	2,654	3,220	3,096	3,155	3,321	3,089	3,274
	2,506	3,250	3,047	3,154	3,304	3,052	3,225
	2,434	3,254	2,956	3,095	3,299	3,008	3,166
	2,287	3,237	2,794	2,984	3,211	2,903	2,964
	2,140	3,195	2,635	2,850	3,150	2,794	2,802
	1,973	3,115	2,540	2,699	3,027	2,671	2,640
	1,765	2,989	2,417	2,619	2,849	2,528	2,641
	1,611	2,790	2,331	2,567	2,698	2,399	
	1,525	2,662	2,195	2,414	2,610	2,281	
	1,452	2,544	1,976	2,258	2,500	2,146	
	1,333	2,438	1,729	2,063	2,270	1,967	
	1,238	2,364	1,521	1,827	2,082	1,806	
	1,151	2,190	1,371	1,603	1,906	1,644	
	1,075	2,064	1,168	1,431	1,808	1,509	
	966	1,990	1,014	1,267	1,720	1,391	
	894	1,845	838	1,171	1,613	1,272	
	817	1,728	721	1,143	1,474	1,177	
	799	1,636	636	1,097	1,379	1,109	
	796	1,561	643	1,032	1,290	1,064	
	738	1,500	680	1,014	1,231	1,033	

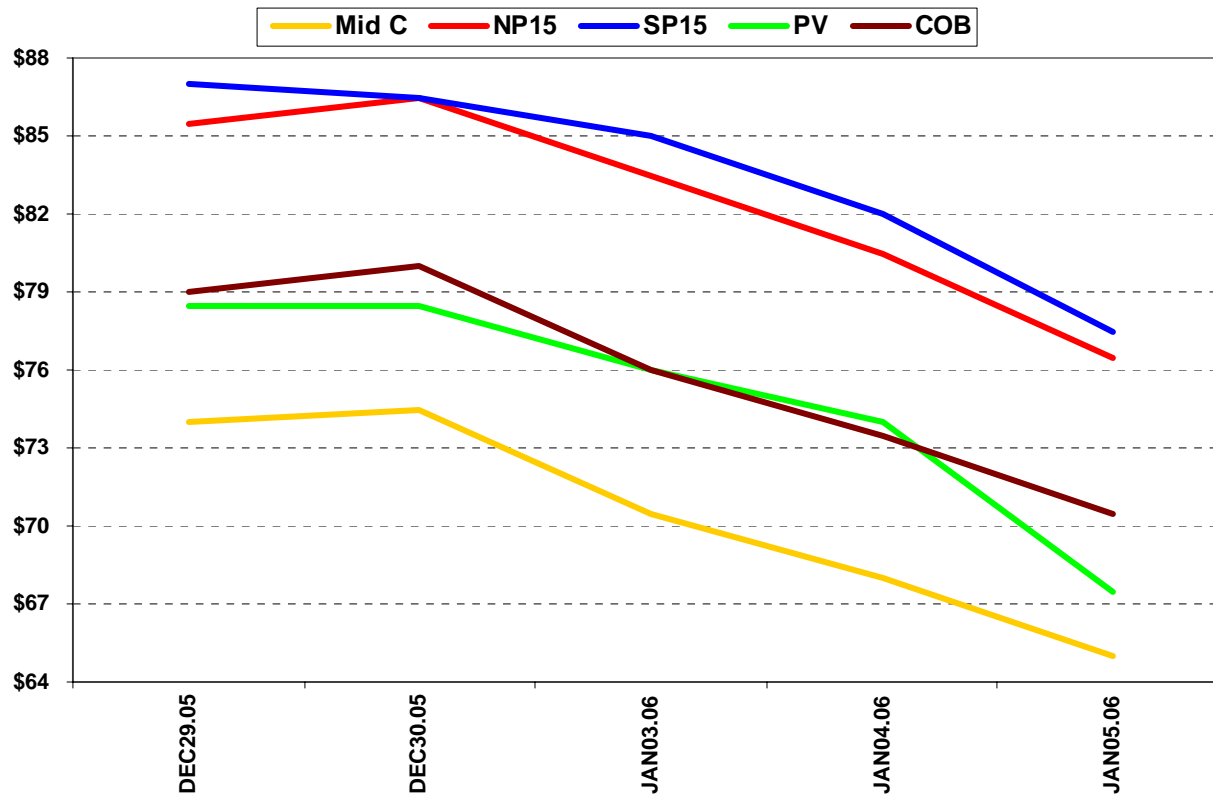
NP15 Forward Prices – Feb'06

(Peak period quotes)



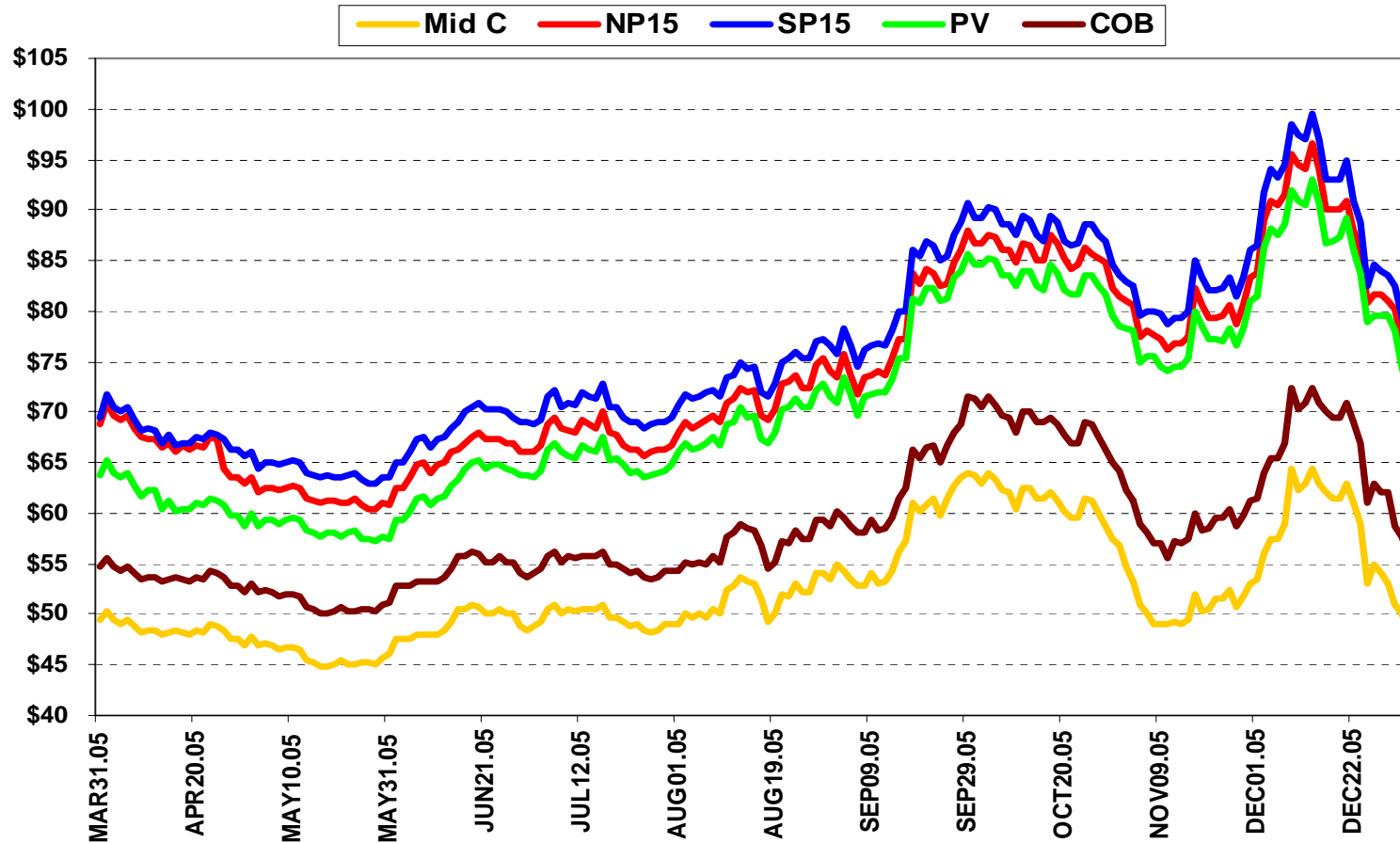
NP15 Forward Prices – Mar'06

(Peak period quotes)



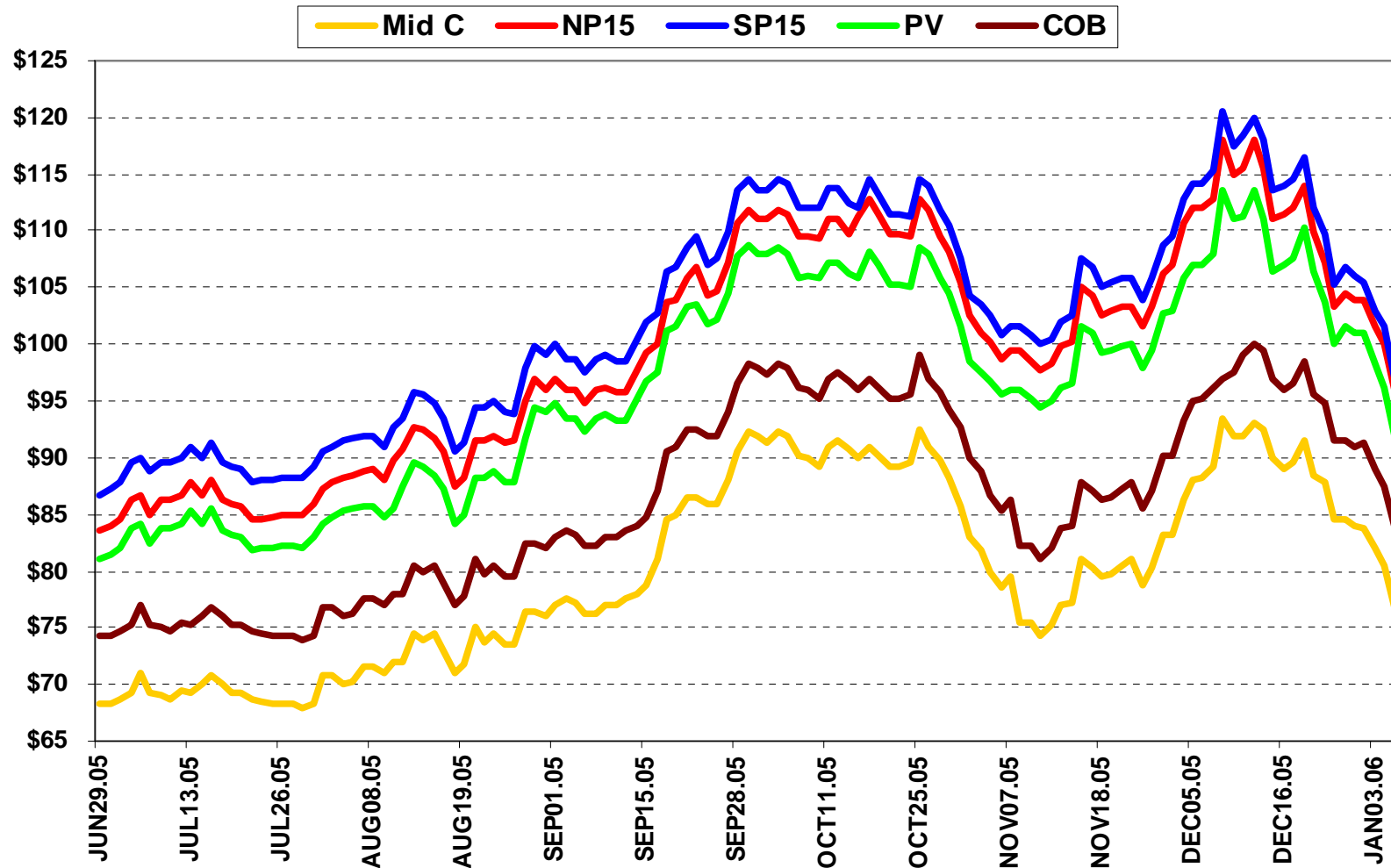
NP15 Forward Prices – Q2'06

(Peak period quotes)



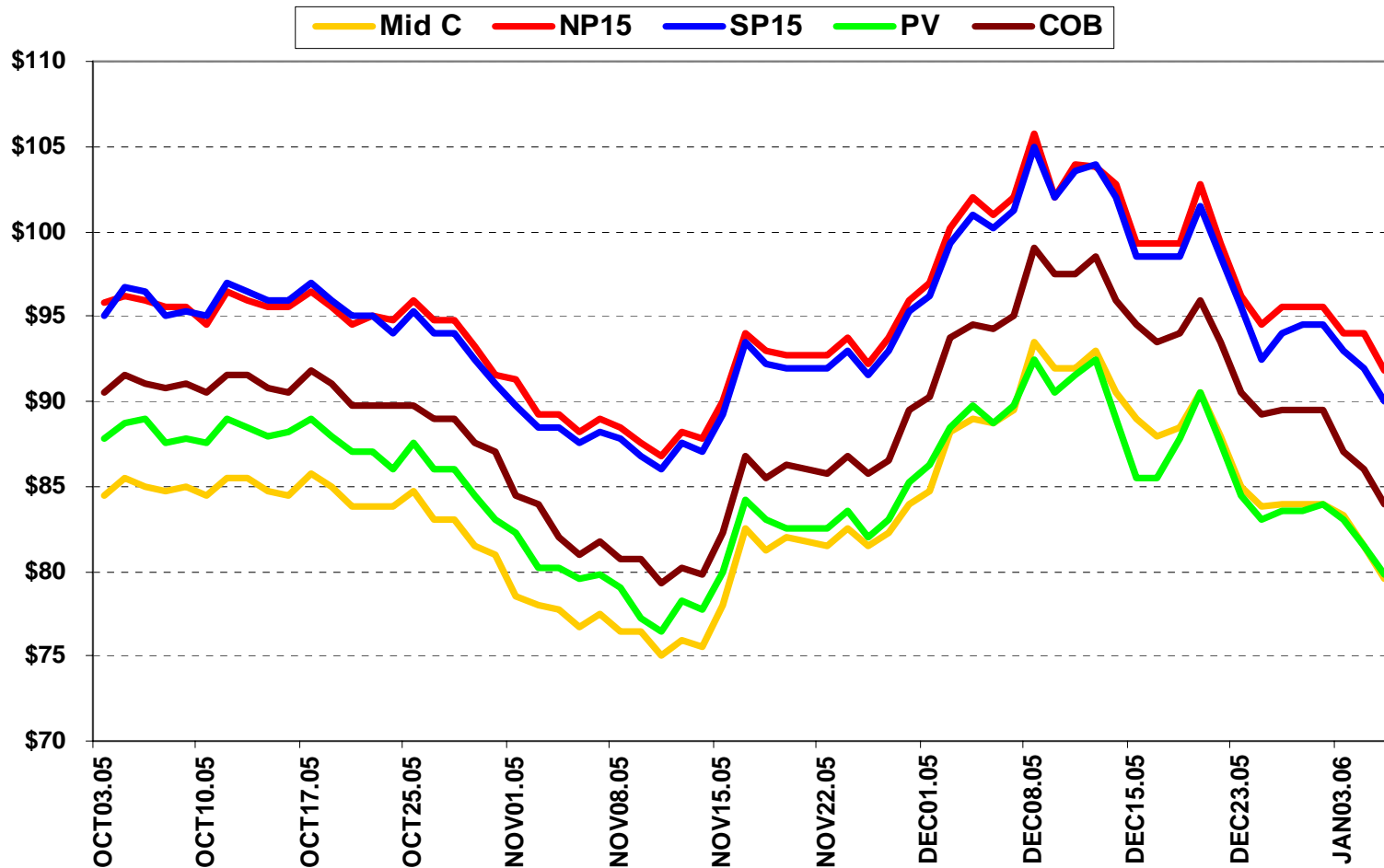
NP15 Forward Prices – Q3'06

(Peak period quotes)



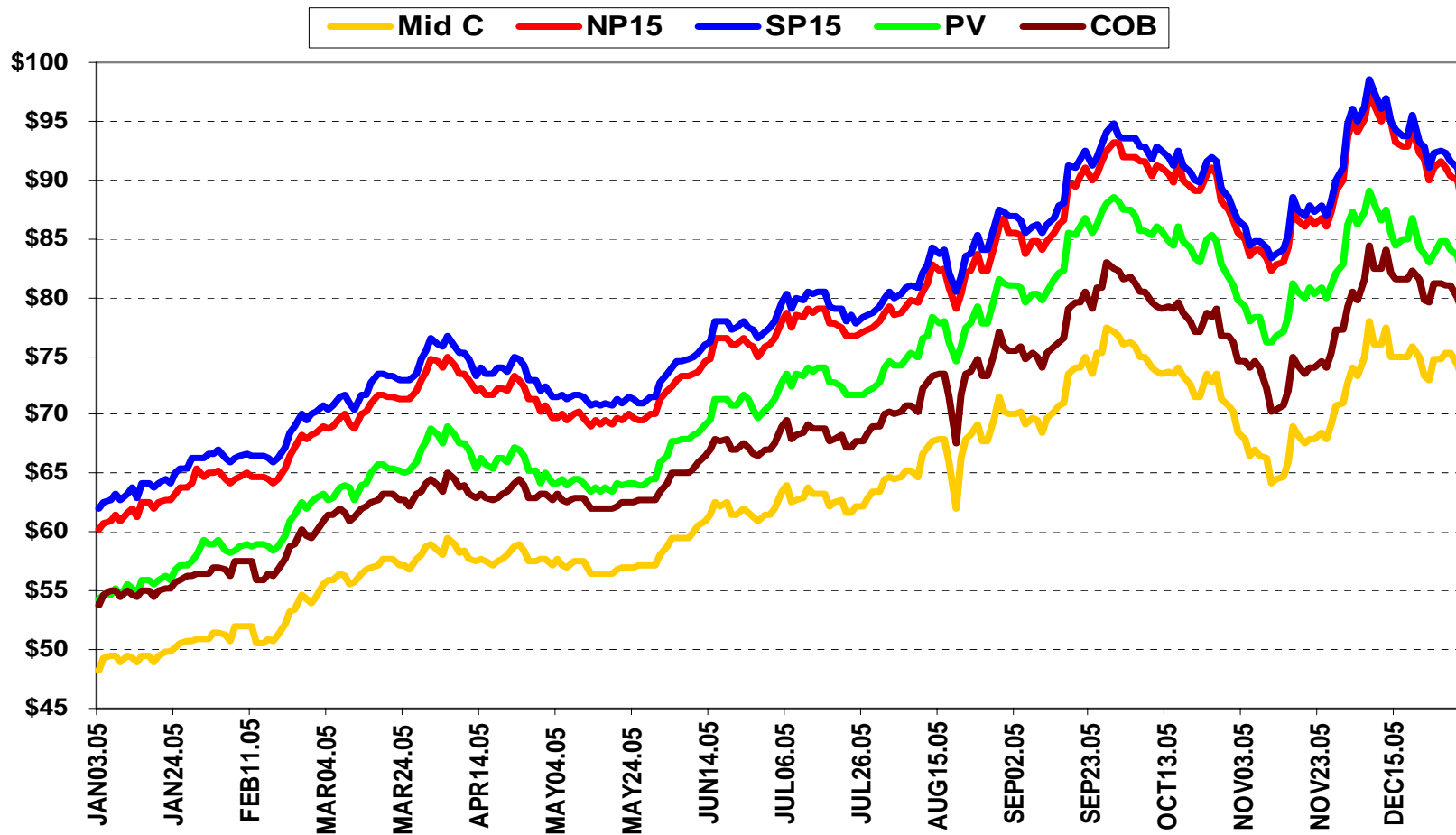
NP15 Forward Prices – Q4'06

(Peak period quotes)

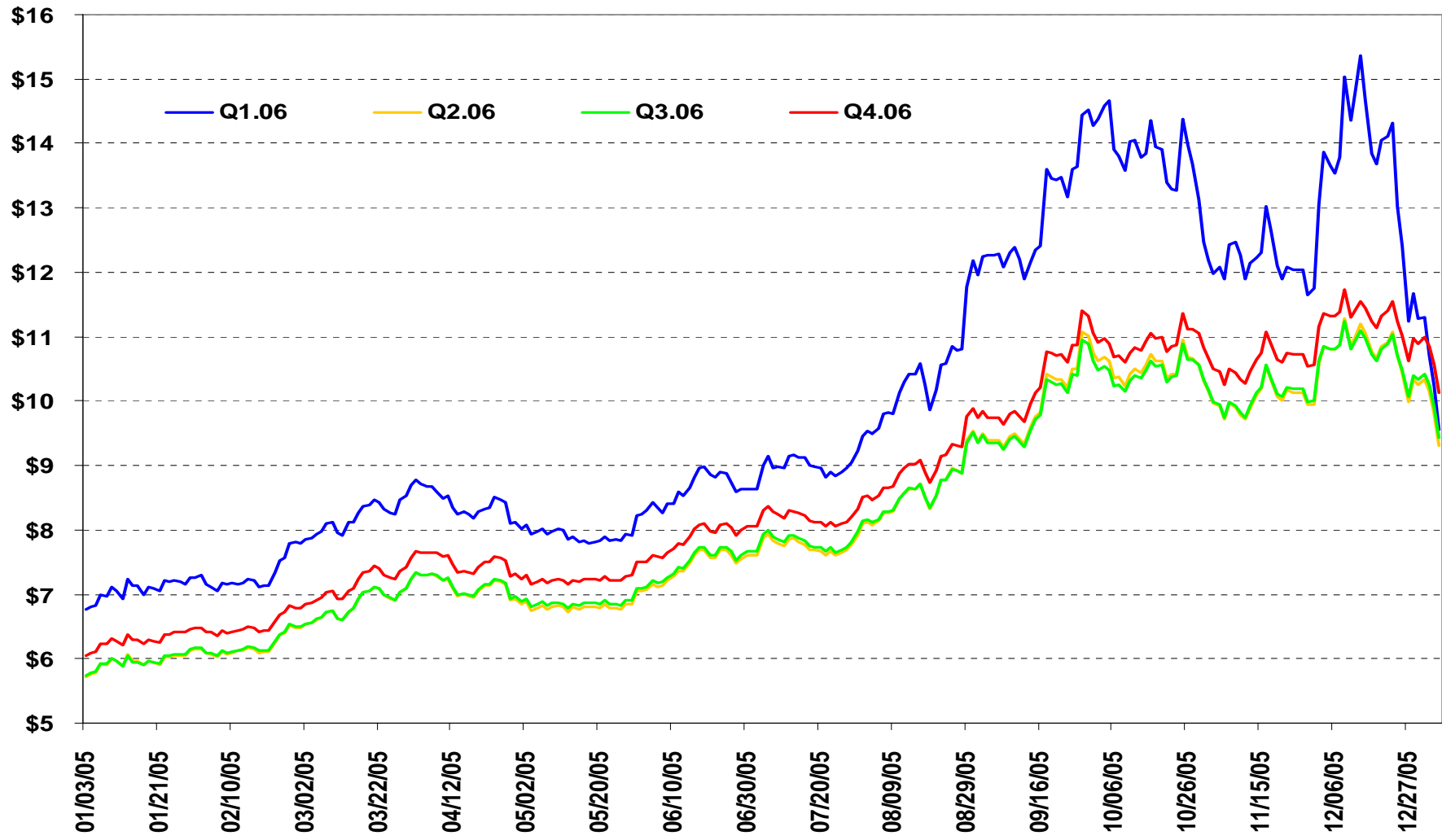


NP15 Forward Prices – CY'07

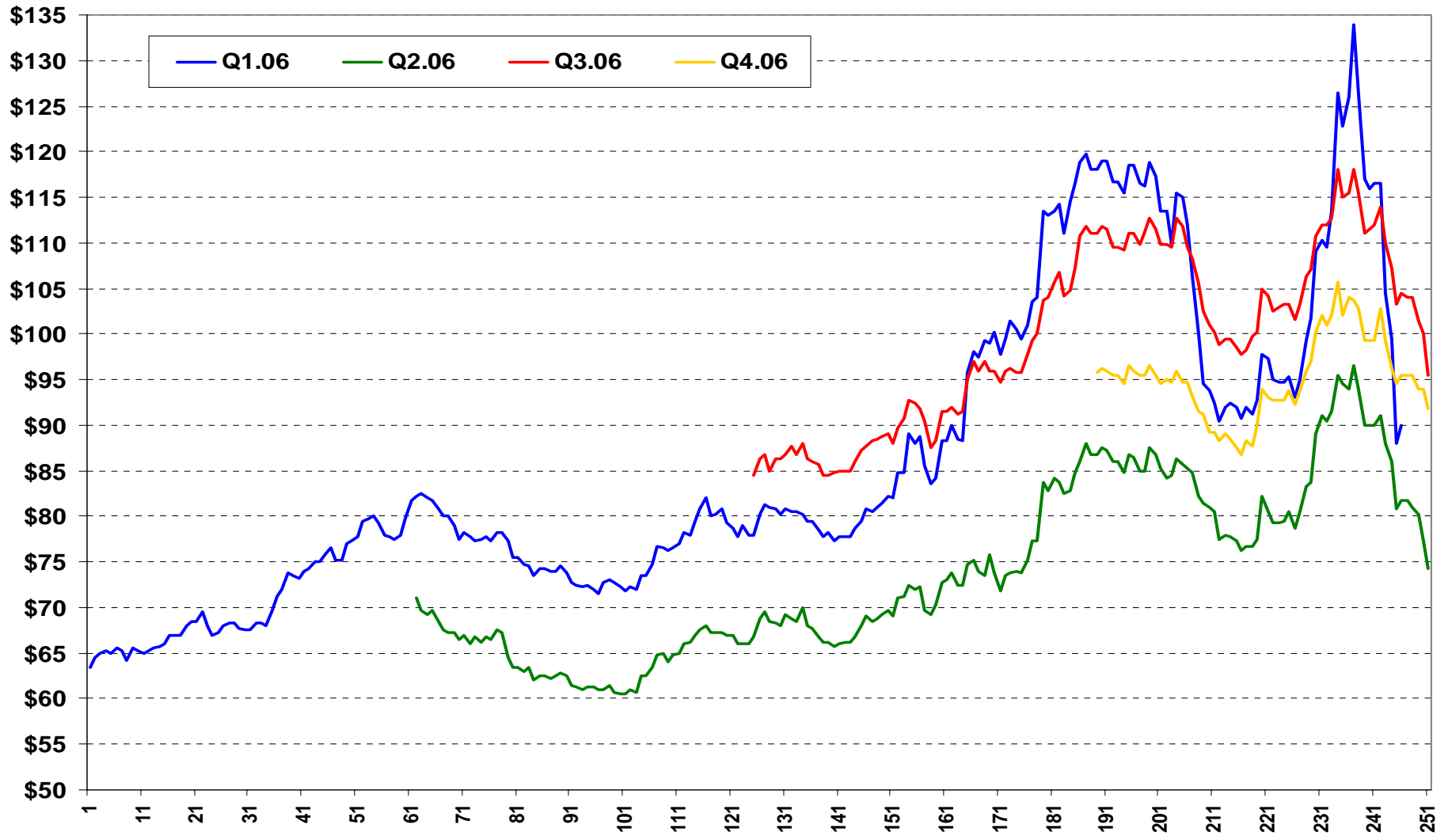
(Peak period quotes)



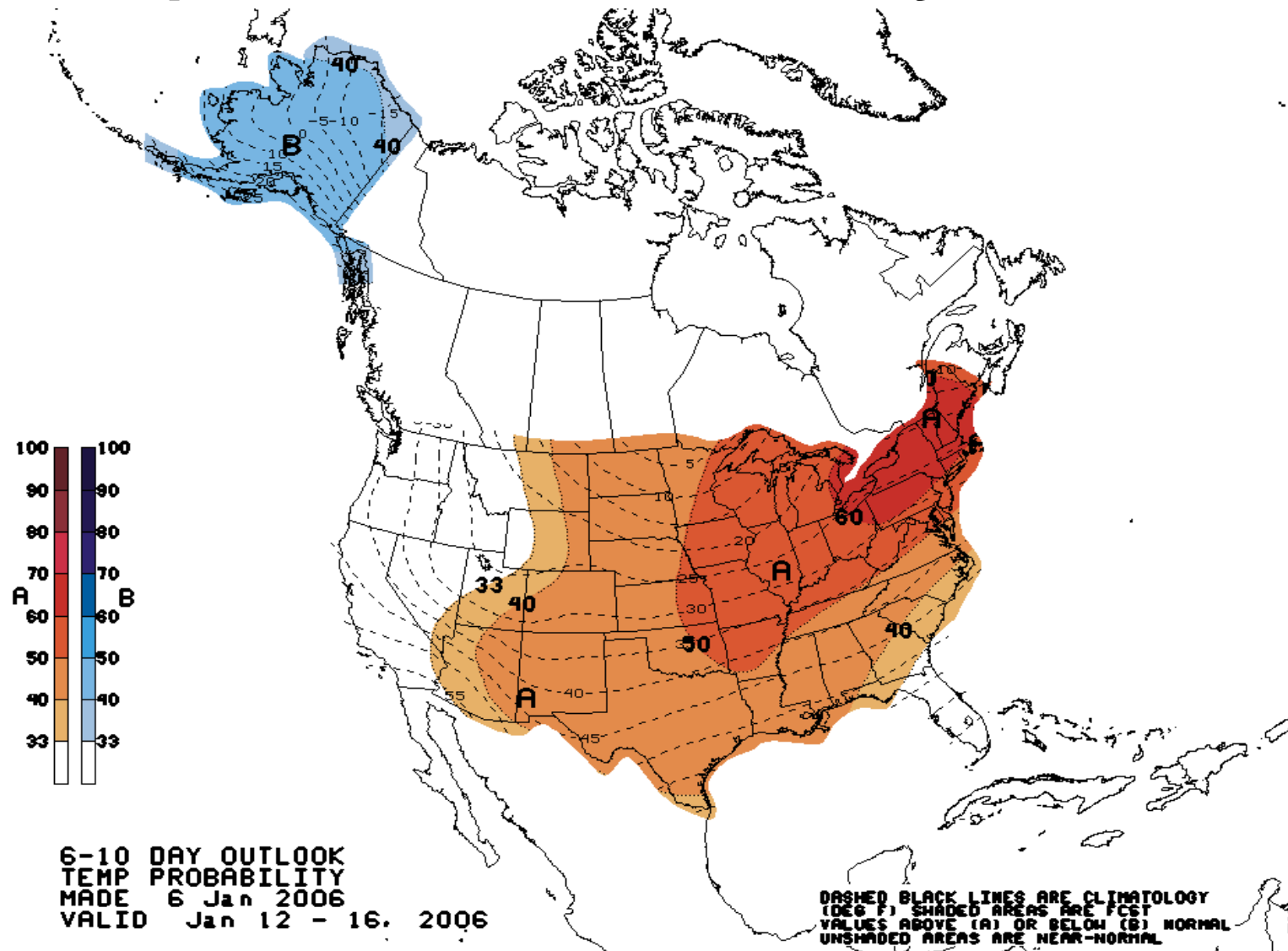
Forward NYMEX Gas Prices by Qtr



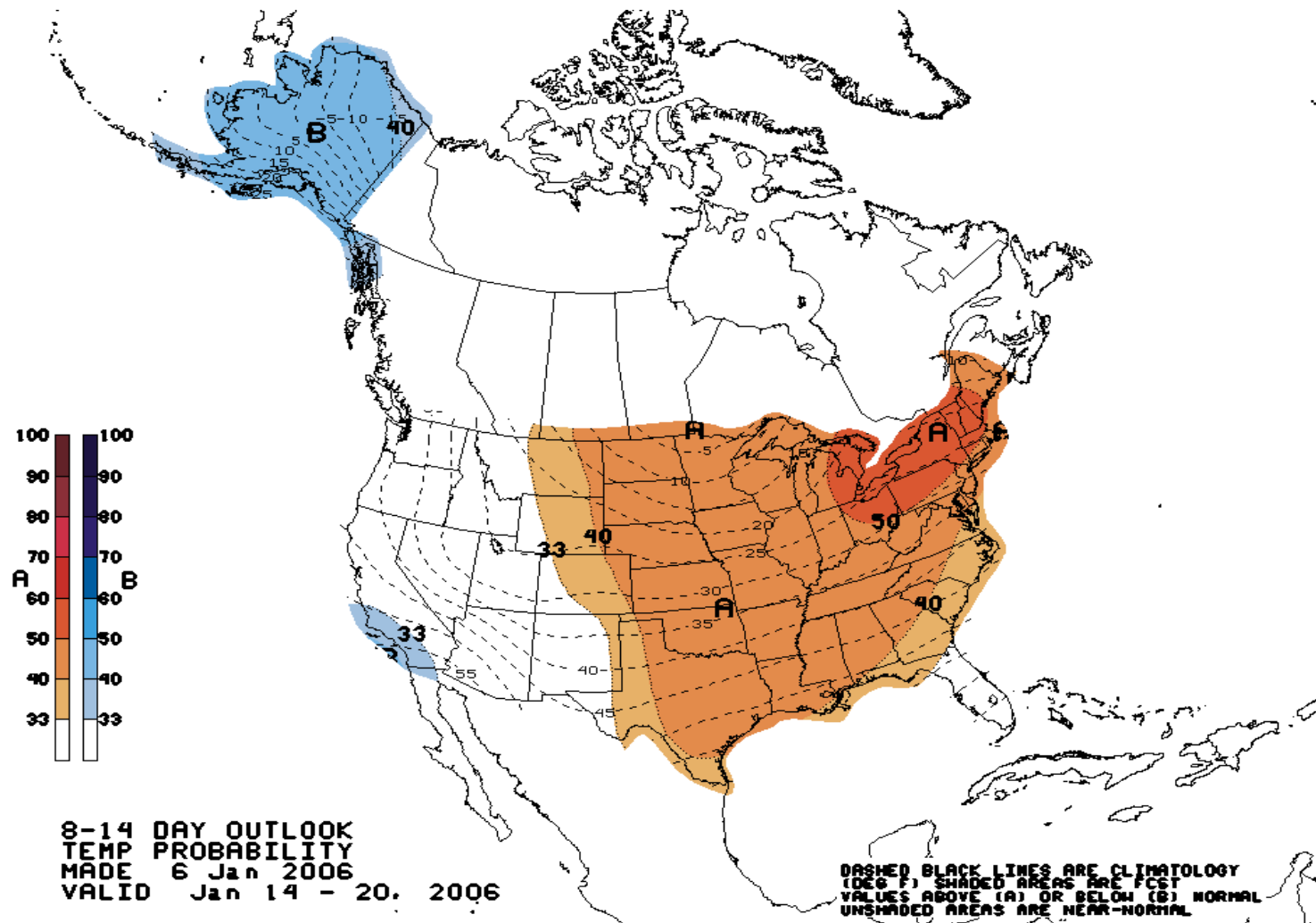
Forward NP15 Peak Period Electric Prices



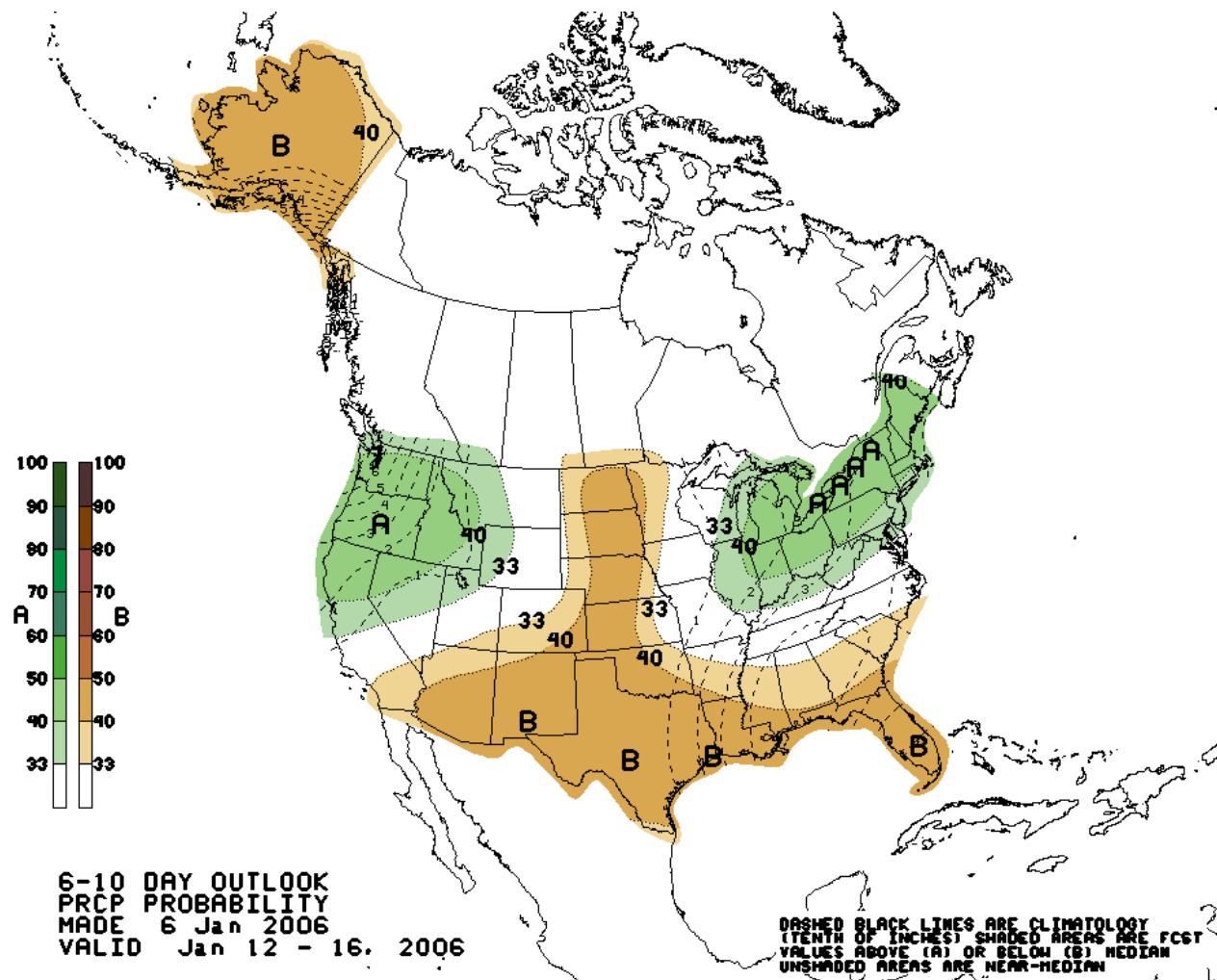
Temperatures – 6 to 10 Day Outlook



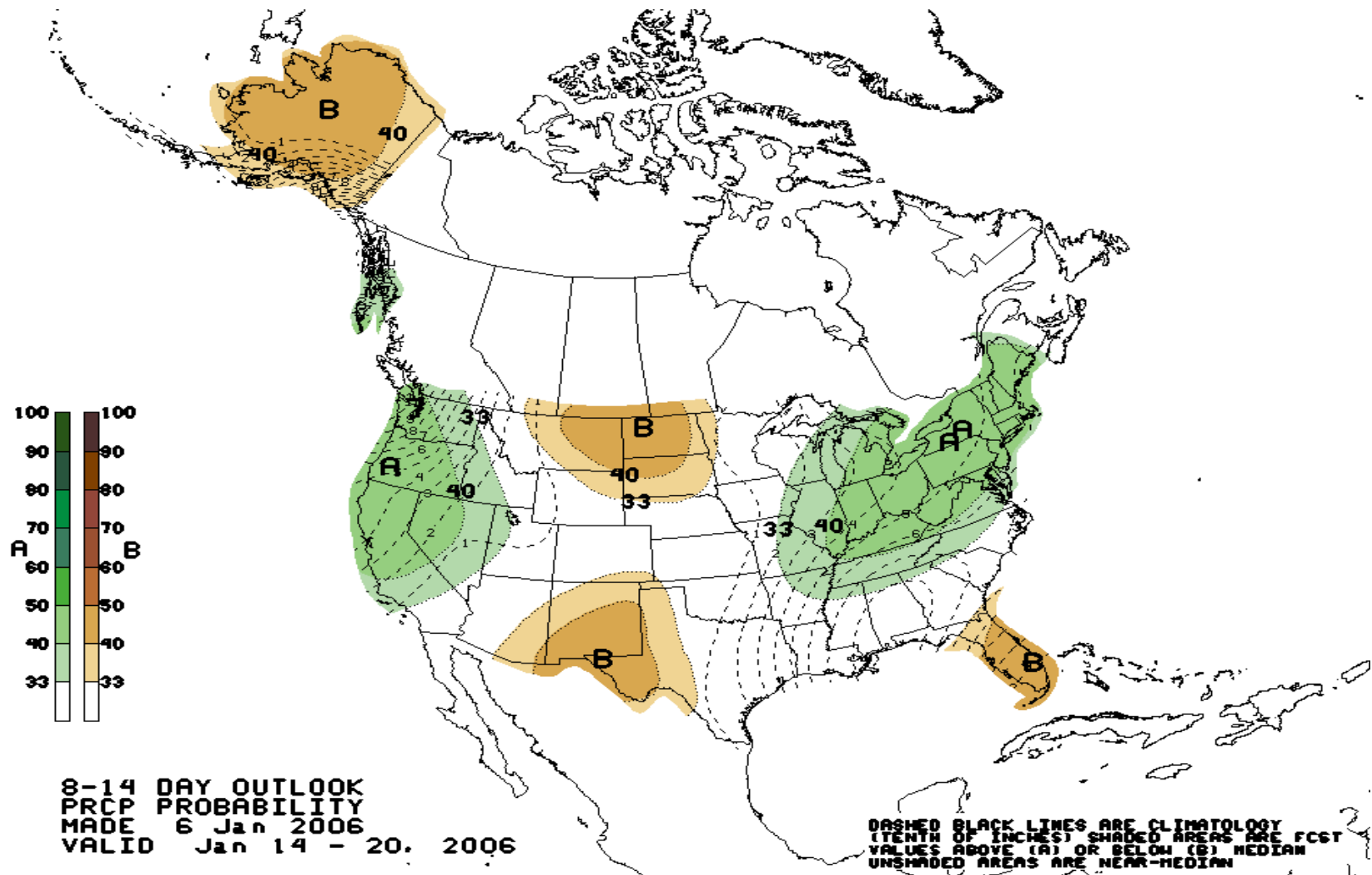
Temperatures – 8 to 14 Day Outlook



Precipitation – 6 to 10 Day Outlook



Precipitation – 8 to 14 Day Outlook



RESOLUTION NO. 2006-20

A RESOLUTION OF THE LODI CITY COUNCIL
AUTHORIZING THE CITY MANAGER AND ELECTRIC
UTILITY DIRECTOR TO PROCURE ENERGY
REQUIREMENTS THROUGH FISCAL YEAR 2007

=====

WHEREAS, the City of Lodi must procure wholesale energy in order to meet its load serving obligations to its customers for fiscal year 2007 and beyond, with the amount of wholesale energy that must be procured ranging from 42% to 94% of Lodi's total load serving obligation; and

WHEREAS, to begin reducing Lodi's exposure to this market volatility, staff recommends procurement through Northern California Power Agency (NCPA) of 80% to 90% of Lodi's net open position for the 3rd quarter of 2006 and 65% to 75% of Lodi's net open position for the 4th quarter of 2006, which will help to address the immediate issue associated with short-term volatility; and

WHEREAS, staff further recommends that the balance of fiscal year 2007, or 1st and 2nd quarters of 2007, will need to be procured through contracts executed directly by the City of Lodi, which will be brought before the City Council for approval at a later date; and

WHEREAS, similarly, additional longer-term resource procurement decisions, which begin reducing open positions two and three years out, will establish further price certainty and either allow Lodi to take advantage of decreasing prices in the future on the balance of Lodi's net open position or reduce Lodi's exposure to rising prices on the balance of the net open position.

NOW, THEREFORE, BE IT RESOLVED by the Lodi City Council that:

- The City Manager and Electric Utility Director are hereby authorized to procure energy for fiscal year 2007 in the amounts of the net open position and at costs of up to 150% of costs of procurement of the net open position as estimated and shown on Exhibit A attached hereto.
- That NCPA is authorized to implement automatic purchases of the net open position for the 3rd and 4th quarters of 2006 in amounts specified by the City Manager or Electric Utility Director should prices reach thresholds established by the City Manager or Electric Utility Director and a net open position for the quarter remain.
- That the City Manager and the Electric Utility Director are hereby authorized to direct NCPA to replace any amount of energy at currently prevailing prices in the event of a failure or disablement of any one of Lodi's owned resources.
- City staff shall report to Council, in accordance with Energy Risk Management Policies, on the status and cost of purchases for fiscal year 2007.

- City staff, through the Risk Oversight Committee established as part of the Energy Risk Management Policies, shall continue to develop and refine a long-term laddering strategy for energy procurement over the next 36 months.
- City Council hereby rescinds any previous procurement authorization granted to the City Manager ~~and/or~~ Electric Utility Director, including but not limited to Resolution No. 2001-246, and replaces those authorizations with the authority granted under this Resolution.

NOW, THEREFORE, BE IT RESOLVED that the Lodi City Council does hereby authorize the City Manager and Electric Utility Director to procure energy required to meet load-serving obligations of Lodi Electric through fiscal year 2007 in accordance with the City of Lodi Energy Risk Management Policies (at an amount not to exceed \$39.8 million).

Dated: January 18, 2006

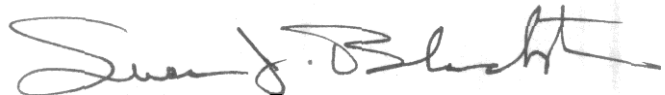
I hereby certify that Resolution No. 2006-20 was passed and adopted by the Lodi City Council in a regular meeting held January 18, 2006, by the following vote:

AYES: COUNCIL MEMBERS – Beckman, Hansen, Johnson, Mounce,
and Mayor Hitchcock

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None



-SUSAN J. BLACKSTON
City Clerk

Attachment 2 - Cost of Procuring Wholesale Energy at January 5,2006 Prevailing Prices

Jan. 5.2006

		Lodi Total			Lodi HLH			Lodi LLH			HLH	LLH		
		Surplus/(Deficit)	Load	% of Load	Surplus/(Deficit)	Load	% of Load	Surplus/(Deficit)	Load	% of Load	\$/MWH	\$/MWH		
2006	July	(23,022)	50,000	-46.0%	(11,075)	31,145	-35.6%	(11,947)	18,855	-63.4%	\$ 95.50	\$ 72.50	\$ 95.50	\$ 72.50
	August	(28,019)	51,590	-54.3%	(17,244)	34,620	-49.8%	(10,774)	16,969	-63.5%	\$ 95.50	\$ 72.50		
	September	(18,857)	44,534	-42.3%	(9,420)	28,359	-33.2%	(9,437)	16,175	-58.3%	\$ 95.50	\$ 72.50		
	October	(21,547)	38,724	-55.6%	(13,083)	24,852	-52.6%	(8,464)	13,872	-61.0%	\$ 91.75	\$ 75.50	\$ 91.75	\$ 75.50
	November	(33,293)	37,593	-88.6%	(22,643)	23,833	-95.0%	(10,650)	13,759	-77.4%	\$ 91.75	\$ 75.50		
	December	(36,412)	38,673	-94.2%	(24,662)	23,641	-104.3%	(11,750)	15,032	-78.2%	\$ 91.75	\$ 75.50		
2007	January	(33,164)	38,621	-85.9%	(20,099)	24,749	-81.2%	(13,064)	13,873	-94.2%	\$ 94.75	\$ 78.50	\$ 94.75	\$ 78.50
	February	(29,008)	34,883	-83.2%	(17,334)	22,636	-76.6%	(11,674)	12,247	-95.3%	\$ 94.75	\$ 78.50		
	March	(31,061)	37,664	-82.5%	(21,350)	24,603	-86.8%	(9,711)	13,060	-74.4%	\$ 94.75	\$ 78.50		
	April	(21,249)	38,029	-55.9%	(11,925)	24,099	-49.5%	(9,324)	13,930	-66.9%	\$ 87.75	\$ 65.81	\$ 85.17	\$ 63.88
	May	(18,024)	40,735	-44.2%	(11,612)	26,442	-43.9%	(6,411)	14,293	-44.9%	\$ 87.75	\$ 65.81		
	June	(18,910)	44,888	-42.1%	(11,521)	29,705	-38.8%	(7,389)	15,183	-48.7%	\$ 80.00	\$ 60.00		
	FY Total	(312,564)	495,933	-63.0%	(191,969)	318,683	-60.2%	(120,595)	177,249	-68.0%				

Assumptions: Zero STIG and CT1 generation

Average hydrom conditions for Calaveras Project, Western Base Resource, and market prices

Forward electricity prices based on Jan. 5, 2006 TFS Energy indications.

There are no forward energy transactions for Lodi during this period.

INDICATED COST OF DEFICIT ENERGY BALANCES

		Total Cost	HLH Cost	LLH Cost
2006	July	\$ (1,923,781)	\$ (1,057,615)	\$ (866,166)
	August	\$ (2,427,955)	\$ (1,646,808)	\$ (781,147)
	September	\$ (1,583,761)	\$ (899,611)	\$ (684,150)
	October	\$ (1,839,434)	\$ (1,200,399)	\$ (639,035)
	November	\$ (2,881,551)	\$ (2,077,482)	\$ (804,069)
	December	\$ (3,149,864)	\$ (2,262,739)	\$ (687,125)
2007	January	\$ (2,929,955)	\$ (1,904,420)	\$ (1,025,534)
	February	\$ (2,558,835)	\$ (1,642,429)	\$ (916,406)
	April	\$ (1,660,023)	\$ (1,046,394)	\$ (613,629)
	May	\$ (1,440,919)	\$ (1,018,981)	\$ (421,938)
Total July-June		\$ (26,546,343)	\$ (17,701,494)	\$ (8,844,849)

EXHIBIT A